

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SHELBY ENERGY COOPERATIVE,)	
INC. FOR AUTHORIZATION TO BORROW UP TO)	
\$3,300,000 FROM THE NATIONAL RURAL UTILITIES)	CASE NO.
COOPERATIVE FINANCE CORPORATION TO EXECUTE)	2011-00391
THE SECURED PROMISSORY NOTE AND LOAN)	
AGREEMENT, AND TO PREPAY RURAL UTILITIES)	
SERVICE 5 PERCENT NOTES OF THE SAME AMOUNT)	

O R D E R

On September 28, 2011, Shelby Energy Cooperative, Inc. ("Shelby Energy") filed its application seeking Commission authority to execute a note to National Rural Utilities Cooperative Finance Corporation ("CFC") in an amount up to \$3,300,000.¹ Shelby Energy intends to use the proceeds from the CFC loan to refinance and discharge part of its indebtedness to the Rural Utilities Service ("RUS"). Based on the lower interest rates offered by CFC, Shelby Energy's cash flow analysis indicates it could save \$203,099² over the life of the loan by refinancing \$3,167,661.

As of July 31, 2011, Shelby Energy's outstanding balance of RUS debt was \$23,538,665.³ The outstanding RUS balance consists of debt with interest rates varying from 1.98 percent to 5.00 percent. Shelby Energy also has outstanding long-term debt with CFC and Federal Financing Bank ("FFB"). Its outstanding balance of CFC debt is

¹ Application at page 2.

² Id. at page 3.

³ Application, Exhibit 2, page 1 of 3.

\$3,383,929, with interest rates varying from 5.85 percent to 6.65 percent.⁴ Shelby Energy's outstanding balance of FFB debt is \$14,970,778, with interest rates varying from 4.46 percent to 4.51 percent.⁵

Of its total outstanding RUS debt, Shelby Energy proposes to refinance fifteen RUS loans in the aggregate amount of \$3,167,661 under the CFC program.⁶ Shelby Energy stated that the offer from CFC expires November 14, 2011.⁷ It proposes to execute one note with terms ranging from one to sixteen years that will approximate the maturity of the RUS debt being refinanced.⁸ The note will require a different fixed interest rate for each of the years, one through sixteen. At the time of the application, CFC's fixed interest rates ranged from a one-year rate of 2.85 percent to a sixteen-year rate of 5.05 percent.⁹

Shelby Energy will have the ability to convert the interest rate from fixed to variable during the term of the loan provided that it promptly pays the invoiced amount for any applicable conversion fee calculated by CFC.

⁴ Id. at page 2 of 3.

⁵ Id. at page 3 of 3.

⁶ Application, Exhibit 7, page 1 of 8. In paragraph 12 of the application, Shelby Energy indicated that the expected actual payoff to be very close to \$3,265,439. At a telephonic informal conference held on October 21, 2011, Shelby Energy stated that this amount was a typographical error, and that the expected payoff was as indicated in Exhibit 7.

⁷ Per cover letter accompanying Shelby Energy's application.

⁸ Application at page 2.

⁹ Id.

The Commission has reviewed the proposed refinancing and finds Shelby Energy's proposal reasonable. Shelby Energy has determined that it can refinance a portion of its RUS five percent fixed-rate debt at a lower effective interest rate and experience cash flow savings over the period of the loan. The Commission commends Shelby Energy for taking advantage of the financing alternatives available to it, thereby securing savings for itself and its member-consumers.

The final amounts of the RUS payoff and the new CFC loan will not be known until the refinancing transaction is finalized. Therefore, Shelby Energy should provide the Commission with the exact amount of the new CFC loan within 10 days of finalizing the transaction. In addition, Shelby Energy should provide an updated version of Exhibit 7, pages 1 through 8, of its application reflecting the cash flow analysis of the new CFC loan.

The Commission, after consideration of the evidence of record and being sufficiently advised, finds that:

1. The loan from CFC is for lawful objects within the corporate purposes of Shelby Energy, is necessary and appropriate for and consistent with the proper performance by the utility of its service to the public, will not impair its ability to perform that service, is reasonable, necessary, and appropriate for such purposes, and should be approved.
2. Shelby Energy should execute its note as security for the proposed loan in the manner described in its application.
3. Within 10 days of finalizing the refinancing transaction, Shelby Energy should notify the Commission in writing of the exact amount of the new CFC loan.

Shelby Energy should include with the notice an updated version of Exhibit 7, Pages 1 through 8, from its application reflecting the savings based on the actual amount of the new CFC loan.

4. Within 10 days of the execution of the new CFC loan documents, Shelby Energy should file three copies of the loan documents with the Commission.

5. The proceeds from the proposed loan should be used only for the lawful purposes set out in Shelby Energy's application.

6. The terms and conditions of the new CFC loan should be consistent with the CFC refinancing program as described in Shelby Energy's application.

IT IS THEREFORE ORDERED that:

1. Shelby Energy is authorized to borrow from CFC up to \$3,300,000, but no more than the total amount needed to pay off the 5.0 percent RUS notes proposed to be refinanced as identified in the application. The loan maturity dates and interest rates shall be in accordance with the CFC refinancing program as described in Shelby Energy's application.

2. Shelby Energy shall execute the CFC loan documents as authorized herein.

3. Shelby Energy shall comply with all matters set out in finding paragraphs 3 through 6 as if they were individually so ordered.

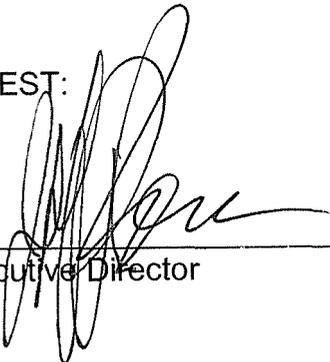
4. Any documents filed in the future pursuant to finding paragraphs 3 and 4 herein shall reference this case number and shall be retained in the utility's general correspondence file.

Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

By the Commission

ENTERED ²
NOV 04 2011
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2011-00391

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